

Global Imbalances and the US Debt Problem

Should Developing Countries Support the US Dollar?

Edited by
Jan Joost Teunissen and
Age Akkerman

FONDAD
The Hague

Contents

| | |
|--|-----------|
| Acknowledgements | ix |
| Notes on the Contributors | x |
| Abbreviations | xv |
| 1 Should Developing Countries Support the US Dollar? By Way of Introduction | 1 |
| <i>Jan Joost Teunissen</i> | |
| The History of the US Debt Problem | 3 |
| The Financing of US Deficits by Developing Countries | 10 |
| About this Book and the Next Volume | 12 |
| 2 Global Imbalances and Emerging Markets | 14 |
| <i>Barry Eichengreen and Yung Chul Park</i> | |
| 1 The Likelihood of a Disorderly Correction | 16 |
| 2 The Impact on Emerging Markets | 20 |
| 3 What Countries Can Do | 27 |
| 4 Conclusion | 40 |
| 3 Global Imbalances and Latin America: A Comment on Eichengreen and Park | 45 |
| <i>Barbara Stallings</i> | |
| 1 The "Upbeat Model" | 46 |
| 2 Non-Asian Emerging Market Countries | 47 |
| 3 Politics of Policy Recommendations | 51 |
| 4 Conclusions | 52 |
| 4 The Dilemmas and Dangers of the Build-Up of US Debt: Proposals for Policy Responses | 53 |
| <i>Jane D'Arista and Stephany Griffith-Jones</i> | |
| 1 US Debt and Global Imbalances | 58 |
| 2 Risks in Failing to Address the US Foreign Debt Problem | 71 |
| 3 How Should the Problem Be Addressed and By Whom? | 77 |
| 4 Conclusions | 83 |

| | | |
|----------|--|------------|
| 5 | Currency Asymmetry, Global Imbalances, and Rethinking of the International Currency System | 87 |
| | <i>Fan Gang</i> | |
| 1 | China's Trade Has Been Mostly Balanced in the Past 28 Years | 88 |
| 2 | China's Trade Imbalance With the US and the New Supply Chain in Asia | 90 |
| 3 | Where Did China's Large Foreign Exchange Reserve Come From? | 93 |
| 4 | National Savings and Global Imbalance | 94 |
| 5 | The "Currency Asymmetry" and the Persistent Tendency of US Dollar Devaluation | 96 |
| 6 | Effective and Real Exchange Rate: What Is Developing Countries' Responsibility for Global Imbalance? | 98 |
| 7 | Concluding Remarks | 101 |
| | | |
| 6 | China's Macroeconomic Imbalances: The Liquidity Tango Mechanism | 106 |
| | <i>Wing Thye Woo</i> | |
| 1 | Systemic Inflationary Tendency: The Liquidity Tango Until 1995 | 110 |
| 2 | Suspending the Liquidity Tango: Current Account Surpluses in 1994-2005 | 113 |
| 3 | The SOBs Are Undermining the State's Fiscal Position | 119 |
| 4 | Freeing the Interest Rate and the Exchange Rate to Address Macroeconomic Imbalances? | 122 |
| 5 | Fixing the Banking System to Facilitate Macroeconomic Management | 126 |
| 6 | Conclusion | 128 |
| | | |
| 7 | How Effective Is Monetary Policy in China? A Comment on Woo's "Inflationary Tango" | 131 |
| | <i>Zdenek Drdbek</i> | |
| 1 | The Model of "Inflationary Tango" | 133 |
| 2 | Questions About the Response Functions of Chinese Economic Agents | 136 |
| 3 | Policy Implications | 138 |

| | |
|--|------------|
| 8 Asian Monetary Coordination and Global Imbalances | 141 |
| <i>Yonghyup Oh</i> | |
| 1 Asia's Crisis and the Call for Monetary Cooperation | 142 |
| 2 Investing Abroad or At Home? | 143 |
| 3 Hurdles to Monetary Cooperation | 144 |
| 4 Concluding Remarks | 147 |
| | |
| 9 Understanding Imbalances in a Globalised International Economic System | 149 |
| <i>Jan A. Kregel</i> | |
| 1 Why the Current Imbalances Are Unlike Any Other | 151 |
| 2 Analysing Regional Imbalances Through Regional Policy Choices | 159 |
| 3 The Imbalances Are Likely to Persist Unless Regional Policies Change | 167 |
| 4 Are There Medium-Term Forces that Can Undermine Policies? | 168 |
| | |
| 10 Policy Recommendations for the US, Europe and Asia: By Way of Epilogue | 174 |
| <i>Jan Joost Teunissen</i> | |
| The Responsibility of the United States | 175 |
| Is Europe Powerless? | 177 |
| The Possibilities for Asia | 178 |
| Concluding Remarks | 181 |